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SUBJECT: China's Food Security Challenges and Opportunities for Engagement in APEC

REF: A. State 96050  
1B. 9/18/2009 Email from David Moore to Ryan MacFarland and Ann Ryan  
1C. 08 Beijing 3598  
1D. 08 Beijing 4332  
1E. Beijing 1727

11. (SBU) Summary: Although China has eliminated widespread hunger and malnutrition within its borders, Beijing still faces challenges in ensuring predictable, affordable domestic food supplies, including: land and water constraints, ecological problems, trade barriers, a poor regulatory and investment climate, and misconceptions regarding the causes of global food price spikes and shortages. China is currently addressing its food security concerns by focusing on domestic agricultural production aimed at maintaining food self-sufficiency.

Comment: China would mostly likely welcome APEC food security discussions on topics -- such as environmental degradation, climate change, and biotechnology -- that match China's emphasis on supporting domestic food production. China also could benefit from conversations on how to achieve food security thorough a shift to greater reliance on agricultural trade, appropriate resource pricing and commodity markets, as well as investment climate and regulatory reforms. Chinese officials have stated that China, as a "developing country," is not interested in contributing financially to non-United Nations multilateral food security initiatives, but might be willing to make some bilateral commitments within the APEC context. End Comment and Summary.

12. (U) This cable provides information in response to Ref A and is a follow up to Ref B.

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Focus on Self-sufficiency and Increasing Production to Address Food Security  
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13. (SBU) China has mostly eliminated systemic malnutrition following farm reforms introduced in the mid-1980s. Grain production typically exceeds domestic needs and China has been a net grain

exporter for more than 20 years. Ensuring food security through self-sufficiency -- especially in grains including corn -- remains a key feature of Chinese Government policy and planning, considered essential for continued social stability. This focus was underscored in July 2008 when China updated its food security goals in its Medium and Long Term Plan for National Grain Security. The Plan stated that China's grain supply should continue to rely on domestic production and set a grain and oilseeds self-sufficiency target of 95 percent or above (Ref C).

¶4. (SBU) China's approach to food self-sufficiency relies heavily on farmers' ability to produce rising quantities of food from less land at low prices. To encourage grain production and maintain profit margins for grain farmers, in recent years China has eliminated taxes on agricultural land, increased both direct payments and minimum farm prices, and provided subsidies for inputs such as farm machinery, fuel, seeds and fertilizers. In 2008, direct payments to grain farmers and input subsidies reached an estimated \$15.1 billion (RMB 102.86 billion), nearly double levels from the previous year. In an effort toward boosting output per hectare, the leadership recently approved a \$3 billion biotech research and development program designed to expedite market introduction of higher yielding/resource efficient grain varieties. Many observers expect China's first biotech grain varieties could be commercialized within the next

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few years.

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Challenges to Self-Sufficiency, and Rising Trade  
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¶5. (SBU) Competition for natural resources from residential and commercial users poses significant challenges to China meeting its long-term self-sufficiency goals. Arable land in China continues to shrink, falling to just over 120 million hectares in 2008 from nearly 130 million hectares in the late 1990s. Water supplies are also dwindling, especially in the North, a major production area for wheat and corn. Climate change, unsustainable agricultural practices, deforestation, and mismanagement of water resources have caused more than 2.6 million square kilometers -- around 27 percent of the country -- to suffer from land degradation. (Ref D).

¶6. (SBU) Market mechanisms and the private sector clearly are playing an increasing role in developing China's agriculture sector and meeting its food security goals. International trading firms have entered the feed sectors, importing soybeans for example, and major international food companies are active in China. However, China remains cautious about allowing market mechanisms and foreign capital an increasing role in food and others sectors seen as key to social and economic stability. With food items the second largest part of the Chinese CPI after housing, authorities are also wary of the vagaries of global commodity markets. State trading enterprises or quasi-government organizations still dominate soy bean and other sectors.

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Comment: Encouraging China to Embrace Markets and Reform to Achieve Domestic Food Security  
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¶7. (SBU) APEC food security discussions could fruitfully address environmental degradation, climate change, and biotechnology as areas of cooperation that match China's current food security strategy. APEC could also engage with China on topics that move beyond its current reliance on self-sufficiency, including agricultural trade, resource pricing and commodity markets, as well as investment climate and regulatory reforms. Engaging China in discussions on these issues would help China more effectively and efficiently promote its long-term food security while also achieving its broader market reform and economic growth goals. Working to move China towards accepting that free trade could play a key role in achieving food security will also help progress in the Doha round.

¶8. (SBU) These discussions would complement ongoing Mission China efforts to address specific market liberalization and market access issues for agricultural products in fora such as the Joint Committee on Commerce and Trade (JCCT) and the U.S.-China Joint Committee on Cooperation in Agriculture (JCCA). APEC engagement could also help promote related discussion in bilateral dialogues such as the U.S.-China Strategic & Economic Dialogue.

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Comment, cont'd: Partnering with China on Global Food Security Initiatives  
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¶9. (SBU) China has for several years been a contributor to the World Food Program and in recent years has been the world's third largest food donor. Although the bulk of China's food aid goes to North Korea, China recently contributed \$5 million for WFP programs in Zimbabwe. At a 2008 FAO ministerial,

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Chinese Premier Wen Jiabao announced a \$30 million donation to the organization's world hunger campaign. China has endorsed the G8/G20 L'Aquila Joint Statement on Global Food Security.

¶10. (SBU) Chinese officials, however, have so far has been cautious about making financial contributions to multilateral food initiatives not firmly under United Nations auspices (e.g., the L'Aquila Food Security Initiative), preferring instead to provide food assistance through United Nations and bilateral channels (Ref E). While continuing to encourage China to more actively support multilateral initiatives, USAID is also encouraging China's contributions to initiatives such as the Comprehensive African Agriculture Development Program (CAADP), an African Union initiative under New Partnership for Africa's Development that allows bilateral contributions, which China may find more acceptable. Beijing might be willing to make some bilateral commitments within the APEC context.

HUNTSMAN